



MyNotary Business News **Currency report**

Latest market commentary provided by MyNotary's personal Pure FX broker, James Roberts As at 1st December 2009

Sterling Overview

Whilst the UK is the last remaining major economy still in recession the latest figures show GDP contracted by 0.3% which is 0.1% less than first thought. Also, earlier in the month Bank of England kept interest rates on hold at 0.5% and introduced an additional £25bn of quantitative easing (printing money) when the market was expecting £50bn. Both bits of data provided some much needed support to the pound.

I mentioned in my last report the Bank of England is keen for the UK to rebalance away from consumer demand to more of an export driven economy. Hence why Governor Mervyn King is often quoted as saying the recent fall in sterling value is not too much of a concern because it makes the UK more attractive for inward investments and our export market.

If you didn't know already I am cautiously optimistic about seeing the pound recover over the medium term, however here comes the caveat. If you look at the composition of third quarter GDP figures, import volumes outpaced exports by almost 1%. Although these import figures are heavily influenced by the car scrappage scheme, should UK exports fail to take advantage of rising global demand and cheap sterling, then any recovery might be difficult to sustain. This is when the more negative economists start talking about a "double dip" recession.

For me this is hard to visualise with many economic indicators as good as they have been for over a year including consumer confidence, mortgage approvals, house prices have stabilised and also inflation looking under control.

As always for a more detailed opinion please contact your currency dealer directly mentioning The MyNotary Network

GBPEUR

You might assume with both France and Germany out of recession all is well in the euro zone, however there are some underlying issues most notably with exports. Germany is the world's largest exporter and has been impacted heavily by the fall in global trade and strength of the euro. In fact the only reason German GDP rose in Q3 was largely due to (temporary) re-stocking. Given the risk to unemployment when wage subsidies are withdrawn, German and indeed the euro zone fortunes rely heavily on the prospects of global trade and the euro becoming less expensive.

GBPUSD (Cable)

US dollar has been very volatile during the last 12 months as investors sought shelter from the global credit crunch and purchased large volumes of USD. Likewise more recently as global equity and credit markets improve the dollar is sold for riskier investments. This trend is likely to continue whilst events like debt issues in Dubai keep unfolding.

GBPCAD (Loonie)

You might not be aware but as global demand increases so have commodity prices, and with this the strength of Canadian dollar because Canada is such a large producer of commodities. So much so Bank of Canada Governor Carney stated that persistent CAD strength will offset domestic economic improvements.

GBPZAR

Unlike the UK, the South African economy emerged from recession last quarter with GDP +0.9% after nearly a year of contraction. This was better than expected, which is why rand has made recent gains against sterling.

GBPAUD

The Reserve Bank of Australia has increased interest rates by another 25bps to 3.75% the third consecutive increase. However this was widely anticipated so exchange rates have not changed significantly. Given the relative strength of Australian dollar against sterling it is unlikely this bias will change any time soon whilst UK interest rates remain low.

GBPNZD (New Zealand dollar)

Like Canada the Reserve Bank of New Zealand has been discussing the fact that the strength of the NZ dollar is damaging competitiveness. In the paper it was argued they should keep interest rates low to help weaken NZD.

Nothing in the newsletter should be construed as advice or guidance as to when to buy or sell currency.

MyNotary Business News presented by Law Consultancy Services Ltd

120 Grosvenor Gardens House, 35-37 Grosvenor Gardens, London SW1W 0BS

Tel: 020 7630 6000 | 0844 884 9294 | 07801 947 298 Email: admin@mynotary.co.uk

www.MyNotary.co.uk

www.LawConsultancyServices.co.uk